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APPLICATION OF

SOUTHSIDE ELECTRIC COOPERATIVE, INC.

CASE NO. PUE000750

**For a general rate increase and for
approval of a special rate and contract**

REPORT OF ALEXANDER F. SKIRPAN, JR., HEARING EXAMINER

August 23, 2001

Southside began this case with an application for a general rate increase of approximately 10.77% and approval of a special economic development rate for ArborTech. Rates established in this proceeding will become Southside's capped bundled rates for purposes of § 56-582 A of the Restructuring Act as well as the starting point for the functional separation plan required by § 56-590. The parties have submitted a proposed settlement covering all of the issues in this proceeding.

HISTORY OF THE CASE

On December 29, 2000, Southside Electric Cooperative, Inc. ("Southside" or "the Cooperative") filed an application for authority to increase its rates and charges for electric service, and to revise its terms and conditions. In addition, Southside requested approval of a special rate to serve an economic development known as ArborTech. Also on December 29, 2000, Southside filed an application for approval of a plan for functional separation pursuant to Virginia Code § 56-590 of the Virginia Electric Utility Restructuring Act ("Restructuring Act").¹ The application for approval of a plan for functional separation, filed by Southside, is treated separately in Case No. PUE000749.

In its application, Southside proposed rates and charges designed to produce additional annual revenues of \$6,001,654, or an increase in jurisdictional revenues of approximately 10.77%. In accordance with Virginia Code § 56-582 A, the rates and charges set in this case will become Southside's capped rates through July 1, 2007. Therefore, pursuant to Virginia Code § 56-582 A 3, Southside's proposed rates took effect January 1, 2001, on an interim basis, subject to refund. On March 19, 2001, the Commission entered an Order For Notice and Hearing in which it directed the Cooperative to give notice, established a procedural schedule, assigned the matter to a Hearing Examiner, and scheduled the matter for public hearing on July 11, 2001.

On April 25, 2001, Colonial Pipeline Cooperative ("Colonial Pipeline") filed a notice of protest. The Division of Consumer Counsel, Office of the Attorney General ("Attorney General") advised the

¹ Chapter 23 of Title 56 of the Code of Virginia, §§ 56-576 *et seq.*

Commission of its intent to participate in this case on May 29, 2001. However, the Attorney General did not file testimony or participate in any of the hearings.

On April 27, 2001, Southside filed a motion to reschedule the hearing to July 12, 2001. On April 30, 2001, Staff filed a Motion for Extension to File Testimony in which it requested that the time for filing its testimony be extended from June 1, 2001, to June 13, 2001. Also, Staff proposed that the date for Protestant testimony be extended from May 15, 2001, to May 25, 2001, and the date for Southside to file its rebuttal testimony be extended from June 25, 2001, to July 2, 2001. A Hearing Examiner's Ruling dated May 1, 2001, granted the motions filed by Southside and the Staff. Nonetheless, the hearing scheduled on July 11, 2001, was retained for the purpose of receiving comments from any public witnesses.

On June 5, 2001, William C. Rolfe, county administrator for Bedford County, filed a letter on behalf of the Bedford County Board of Supervisors requesting a hearing located within the service area of Southside. The letter was the result of a resolution unanimously adopted by the Bedford County Board of Supervisors directing the County Administrator to seek a public hearing in the Southside service area in this matter. In a Hearing Examiner's Ruling dated June 22, 2001, hearings for taking comments from public witnesses were scheduled for July 25, 2001, at 2:00 p.m. and 7:00 p.m. in the Board of Supervisors Meeting Room, Bedford County Administration Building, 122 E. Main St., 2nd Floor, Bedford, Virginia 24523.

On July 11, 2001, a hearing was convened as originally noticed for receiving comments from the public. No public witnesses appeared at this hearing. Counsel for Commission Staff, in conjunction with counsel for Southside, moved for a continuance of the evidentiary hearing to permit the parties more time to negotiate a possible stipulation. The Examiner granted the continuance and in a ruling dated July 27, 2001, reset the evidentiary hearing for July 31, 2001.

On July 25, 2001, hearings were convened at 2:00 p.m. and 7:00 p.m. in the Board of Supervisors Meeting Room, Bedford County Administrative Building, for the receiving of comments from public witnesses. Two public witnesses appeared during the afternoon hearing. No witnesses appeared during the evening hearing.

On July 31, 2001, a hearing was convened for receiving evidence. Representing Southside at the hearing was John M. Boswell, Esquire. Guy T. Tripp III, Esquire, appeared on behalf of Colonial. C. Meade Browder, Jr., Esquire, represented the Staff.² Filed with this Report are transcripts from each of the hearings.

SUMMARY OF THE RECORD

² Joseph W. Lee, III, Esquire, appeared on behalf of the Staff during the Bedford public hearings.

This rate application is the first rate application for Southside in nearly ten years.³ Based on a test year ending December 31, 1999, Southside requested an increase in annual operating revenues of approximately \$6 million.⁴ Under the Cooperative's proposal, the percentage increase for each customer class would be as follows:

Residential	11.81%
General Service – Single Phase	16.88%
General Service – Multi Phase	0.01%
Industrial	1.55%
Security Lights	0.00%
System Totals (Jurisdictional)	10.77% ⁵

In addition, Southside requests authorization to implement the “standard template for Terms and Conditions as approved by [Old Dominion Electric Cooperative's] member cooperatives in the Commonwealth of Virginia.”⁶ Further, Southside proposes increases for several of its other fees and charges, including: (i) increasing meter reading, collection, reinstallation, transfer, and special trip fees from \$10.00 to \$15.00; and (ii) increasing returned check fees from \$10.00 to \$25.00.⁷ In addition, Southside proposes charging customers \$15.00 for private meter tests and reports, increasing the charge on such tests for large commercial accounts to \$25.00 and charging \$15.00 for service reconnections (\$45.00 after 3:00 p.m.).⁸ Trouble calls on consumers' equipment will be billed at actual cost with a two-hour minimum labor charge for the number of employees involved.⁹

Finally, Southside asks for approval of a special contract rate offered pursuant to Virginia Code § 56-235.2 to ArborTech, a manufacturer of wood products.¹⁰ ArborTech is in the process of constructing a facility in the “excessed” area of Fort Picket.¹¹

Southside supported its application with the direct testimony of five witnesses. M. Larry Longshore, president and CEO for Southside, explained the need for the Cooperative's rate filing and rate increase request.¹² Ronnie L. Johnson, senior consultant for Johnson Certified Public Accountant PLLC and Consulting, prepared and sponsored most of the schedules attached to the application in

³ Exhibit MLL-2, at 3.

⁴ Exhibit RLJ-3, at Schedule 3, column 8, line 3.

⁵ Exhibit Cooperative-1, Application Narrative.

⁶ Exhibit SWW-5, at 3.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at 3-4.

¹⁰ Exhibit JWR-6, at 3.

¹¹ *Id.*

¹² Exhibit MLL-2.

which the Cooperative quantifies its revenue requirement.¹³ Jack D. Gains, manager of utility rate and financial services for Southern Engineering, a division of Clough Harbour & Associates, LLP, developed capped bundled rates for Southside and devised the methodology for unbundling the retail electric rates of the Cooperative.¹⁴ Stanley W. Worsham, Jr., manager of finance for Southside, prepared the terms and conditions and the associated fees requested by the Cooperative.¹⁵ John W. Rainey, manager of rates and regulation for Old Dominion Electric Cooperative (“Old Dominion”), addressed the merits of the proposed contract rate for ArborTech.¹⁶ Finally, John N. Prosise, county planner and economic development contact for Nottoway County, described the efforts made by Nottoway County to attract ArborTech and commented on the economic impact of ArborTech to the County and the Cooperative.¹⁷

On May 25, 2001, Colonial Pipeline filed the testimony of Michael S. Richeson, energy manager for Colonial Pipeline.¹⁸ Mr. Richeson expressed concern regarding the magnitude of the proposed increase for Colonial Pipeline, which he estimated to be approximately thirty percent.¹⁹ Mr. Richeson found this increase to be “much greater than the rate increase to any other customer or classes of customers served by the Cooperative.”²⁰

On June 20, 2001, the Staff filed the direct testimonies and exhibits for three witnesses. John B. Barker, senior public utility accountant with the Division of Public Utility Accounting, provided several accounting adjustments and Staff’s calculation of the Cooperative’s revenue requirements on both a traditional ratemaking basis and on a forward-looking basis for the rate period 2001 through 2007.²¹ Based on the midpoint, or 2.25, of Staff’s recommended TIER range of 2.00 to 2.50, Mr. Barker calculated Southside’s additional revenue requirement to be \$2,191,219.²² Lawrence T. Oliver, assistant director of the Division of Economics and Finance, calculated Southside’s pro forma interest expense for 2000 through 2007.²³ In addition, Mr. Oliver supported Staff’s recommended TIER range of 2.00 to 2.50 times.²⁴ Staff’s third witness, Rosemary M. Henderson, senior utilities analyst with the Division of Energy Regulation, addressed the Cooperative’s: (i) cost of service study; (ii) proposed revenue allocations; (iii) changes in rate design and rules and regulations for service; and (iv) request for a special rate for ArborTech.²⁵

¹³ Exhibit RLJ-3.

¹⁴ Exhibit JDG-4.

¹⁵ Exhibit SWW-5.

¹⁶ Exhibit JWR-6.

¹⁷ Exhibit JNP-7.

¹⁸ Exhibit MSR-11.

¹⁹ *Id.* at 2.

²⁰ *Id.*

²¹ Exhibit JBB-12.

²² *Id.* at 36 and Statement I.

²³ Exhibit LTO-13, at 1-2, 4-9.

²⁴ *Id.* at 2-3, 9-19.

²⁵ Exhibit RMH-14.

On June 25, 2001, Southside filed supplemental direct testimony for three witnesses. Mr. Johnson updated his direct testimony to include actual results through December 2000, and updated the methodology used to calculate several adjustments.²⁶ Mr. Gains corrected demand billing determinants and related proposed rates.²⁷ Mr. Worsham supported proposed revisions to the Cooperative's terms and conditions for service.²⁸

On July 9, 2001, Southside filed its rebuttal testimony. Mr. Johnson offered comments and recalculations of several Staff adjustments.²⁹ Areas of difference addressed by Mr. Johnson included: (i) TIER calculation methodology, (ii) ODEC rate reductions, (iii) Staff's present value techniques, (iv) cash working capital, (v) customer growth, (vi) purchased power expenses, (vii) payroll and other payroll related expenses, (viii) right-of-way expense, (ix) bad debts, (x) major storm expense, (xi) postage expense, (xii) Fort Pickett related costs, (xiii) depreciation expense, and (xiv) a TIER-based refund technique.³⁰ In addition, Mr. Johnson filed a separate, proprietary rebuttal testimony regarding ODEC's future rate estimates.³¹ Mr. Gaines testified that Staff witness Barker overstated his revenue estimates for the years 2001-2007, by failing to remove gross receipts tax and using the wrong percentage increase.³² Also, Mr. Gaines raised two issues concerning Staff witness Henderson's testimony.³³ Mr. Gaines disagreed with Ms. Henderson's recommended revenue decrease of approximately 27.5% for the General Service Three Phase Class ("GST").³⁴ Second, Mr. Gaines offered minor adjustments to Staff's proposed rate design for Schedule I-1 to create consistency between demand charges and ODEC's current wholesale rate and to reflect the class's overall revenue requirement. Finally, Dr. Anthony G. Lawrence, economist and econometrician with Southern Engineering, offered his observations and recommendations regarding the appropriate methodology to use for forward-looking ratemaking.³⁵

On July 25, 2001, at the request of the County Administrator of Bedford County on behalf of the Bedford County Board of Supervisors, public hearings were held in Bedford, Virginia. At these hearings two public witnesses appeared. Clifford Smith stated that he was confused by media reports of customer choice for electricity beginning January 2002.³⁶ Further, Mr. Smith raised a number of specific questions regarding Southside's Application and testified regarding the steps he has taken to reduce his electric bill, and the difficulty he would experience if the Cooperative was granted any

²⁶ Exhibit RLJ-8.

²⁷ Exhibit JDG-9

²⁸ Exhibit SWW-10.

²⁹ Exhibit RLJ-16.

³⁰ *Id.*

³¹ Exhibit RLJ-P-19.

³² Exhibit RDG-17, at 1.

³³ *Id.* at 2-4.

³⁴ *Id.* at 2-3.

³⁵ Exhibit AGL-18.

³⁶ Smith, Tr. at 15.

increase in rates.³⁷ The other public witness, Weldon Preston, compared his electric bill from Southside to what his bills would be if he were served by AEP.³⁸ Based on such a comparison, Mr. Preston concluded that “the rates for Southside are excessively high.”³⁹

During the evidentiary hearing, held on July 31, 2001, Southside, Staff, and Colonial Pipeline submitted a stipulation designed to resolve all of the issues in this case.⁴⁰ Based on the stipulation, all of the prefiled testimony was made a part of the record not subject to cross-examination.⁴¹ For purposes of settling this case and based on a TIER of 2.5, the Cooperative and Staff agreed upon an additional annual revenue requirement of \$3,981,325 and a total revenue requirement of \$57,729,398.⁴² Pursuant to the stipulation, the percentage increase for each customer class would be as follows:

Residential	9.27%
General Service – Single Phase	7.36%
General Service – Multi Phase	0.01%
Industrial (1)	1.98%
Industrial (2)	0.79%
Security Lights	0.00%
Special Contracts	-40.82%
System Totals (Jurisdictional)	7.24% ⁴³

Furthermore, the stipulation provided for a special rate for ArborTech⁴⁴ and provided for changes to the terms and conditions as proposed by Staff witness Henderson and agreed to by Southside witness Gaines.⁴⁵ The Cooperative did not agree with the Staff’s computations using a present value methodology, but accepted such computations for settlement purposes.⁴⁶ Also, Southside withdrew its TIER Credit Billing Factor proposal.⁴⁷ Finally, Southside and Staff acknowledged that certain issues in the Cooperative’s functional separation plan application, Case No. PUE000749, remain at issue.⁴⁸ Both parties requested that “Case No. PUE000749 be continued generally pending entry of a Final Order in this Case No. PUE000750.”⁴⁹

³⁷ *Id.* at 16-20.

³⁸ Preston, Tr. at 22.

³⁹ *Id.* at 23.

⁴⁰ Exhibit Staff-15.

⁴¹ *Id.* at ¶¶ 1-3; Tr. at 34-40.

⁴² Exhibit Staff-15, at ¶ 4.

⁴³ *Id.* at attached Exhibit B, Staff Witness Henderson’s Statement No. 1, Revised.

⁴⁴ *Id.* at ¶ 6.

⁴⁵ *Id.* at ¶ 7; Exhibit JDG-9, Schedule 5A.

⁴⁶ Exhibit Staff-15, ¶ 9.

⁴⁷ *Id.* at ¶ 10.

⁴⁸ *Id.* at ¶ 11.

⁴⁹ *Id.*

A copy of the stipulation and its supporting schedules is attached to this report.

DISCUSSION

The stipulation, jointly offered by the Cooperative, Staff, and Colonial Pipeline offers a reasonable and just resolution to all revenue requirement, TIER, and rate design issues, including a special rate for ArborTech. The stipulation is supported by the record and should be adopted.

In addition, during the evidentiary hearing, counsel for Southside requested expedition of the decision process to permit the Cooperative to begin the refund process as quickly as possible.⁵⁰ Staff and Colonial Pipeline did not object to a prompt reduction of rates to alleviate the refund obligations.⁵¹ Based on the stipulation and the representations of counsel, I encourage the parties to file their comments as soon as practicable to permit Southside to implement the agreed to rates as soon as possible.

FINDINGS AND RECOMMENDATIONS

In conclusion, based on the stipulation, and on the evidence received in this case, I find that:

(1) The use of a test year ending December 31, 1999, and the Staff's discounting methodology of the years 2001 through 2007 is proper in this proceeding and complies with the requirements of the Restructuring Act;

(2) The Cooperative's rate period operating revenues, after all adjustments, were \$53,748,073;

(3) The Cooperative's rate period operating expenses, after all adjustments, were \$46,033,396;

(4) The Cooperative's rate period operating margin, after all adjustments, was \$7,696,909;

(5) The Cooperative's rate period total margin, after all adjustments, was \$3,677,101;

(6) The Cooperative's current rates produced a TIER on adjusted rate base of 1.72;

(7) The Cooperative's actual TIER should be 2.5;

(8) The Cooperative's adjusted rate period long-term interest expense is \$5,092,815;

⁵⁰ Tr. at 41-42.

⁵¹ *Id.*

(9) The Cooperative's application requesting an annual increase in revenues of \$6,001,654 is unjust and unreasonable because it will generate a TIER greater than 2.5;

(10) The Cooperative requires \$3,981,325 in additional gross annual revenues to earn a TIER of 2.5;

(11) The revenue allocation methodology set forth in the stipulation is just and reasonable;

(12) The Cooperative should file permanent rates designed to produce the additional revenues found reasonable using the revenue apportionment and rate design methodologies contained in the stipulation;

(13) The Cooperative should be required to refund, with interest, all revenues collected under its interim rates in excess of the amounts found just and reasonable herein;

(14) The Cooperative should implement the changes to its terms and conditions as provided for in the stipulation;

(15) The Cooperative should institute the agreed upon special rate for ArborTech as stated on Revised Exhibit B, Statement 4, page 3 of the stipulation;

(16) The Cooperative should not be permitted to implement its proposed TIER Credit Billing Factor; and

(17) The Cooperative's functional separation plan application, Case No. PUE000749 should be continued generally pending entry of a Final Order in this case.

In accordance with the above findings, ***I RECOMMEND*** that the Commission enter an order that:

1. ***ADOPTS*** the findings in this Report;
2. ***GRANTS*** the Cooperative an increase in gross annual revenues of \$3,981,325; and
3. ***DIRECTS*** the prompt refund of all amounts collected under interim rates in excess of the rate increase found just and reasonable herein.

COMMENTS

The parties are advised that pursuant to Rule 5 VAC 5-20-120 C of the Commission's Rules of Practice and Procedure, any comments to this Report must be filed with the Clerk of the Commission in writing, in an original and fifteen copies, within twenty-one days from the date hereof. The mailing

address to which any such filing must be sent is Document Control Center, P. O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document that copies have been mailed or delivered to all other counsel of record and to any party not represented by counsel.

Respectfully submitted,

Alexander F. Skirpan, Jr.
Hearing Examiner